



# **SOUTH CENTRAL HUMAN RESOURCE AGENCY**

**Investigative Report**  
April 29, 2016

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**Justin P. Wilson, Comptroller**





STATE OF TENNESSEE

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April 29, 2016

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Mr. Rosson:

We performed an investigation, in conjunction with the Tennessee Bureau of Investigation and the United States Department of Energy, Office of Inspector General, of selected records of the South Central Human Resource Agency (SCHRA) for the period July 1, 2011, through June 30, 2014; however, we expanded the scope as necessary. The investigation revealed the following deficiencies:

- Questionable payments totaling \$134,992 were noted in the Head Start and Weatherization projects, plus abusive business practices were noted on a contractor and the agency.
- Multiple deficiencies exist in the Community Representative Payee Program.
- The lack of segregation of duties in the Fiscal Department and controls over the agency's computerized accounting systems could lead to fraud.
- The executive director's vehicle use violated agency policy.
- The circumvention of controls by the executive director and the director of fiscal operations led to violations of several agency policies.

The findings and recommendations, as a result of our investigation, are presented in this report. These findings and recommendations have been reviewed with management to provide an opportunity for their response. Written responses from management are paraphrased in this report. Also, these findings and recommendations have been reviewed with the district attorney general for the Seventeenth Judicial District and the United States Attorney for the Eastern District of Tennessee. James Coy Anderson, the former executive director of SCHRA, resigned on March 1, 2016. Paul Rosson, the current executive director, was hired as interim executive director on March 1, 2016, and was appointed permanent executive director on March 22, 2016.

## Background



The “Human Resource Agency Act of 1973” created nine agencies assigned to districts of the state to be dedicated to the delivery of human resources to citizens. SCHRA delivers services for various programs to citizens in the 13 counties it serves. SCHRA is located in Fayetteville, Tennessee.

## INVESTIGATIVE FINDINGS

### **FINDING 1**      **QUESTIONABLE PAYMENTS TOTALING \$134,992 WERE NOTED IN THE HEAD START AND WEATHERIZATION PROJECTS, PLUS ABUSIVE BUSINESS PRACTICES WERE NOTED ON A CONTRACTOR AND THE AGENCY**

The Head Start and Early Head Start programs promote school readiness by providing mental, social, and emotional development to children from birth to age five who come from low-income families. SCHRA operates at least one Head Start classroom in each of the 13 counties it serves.

The Weatherization Assistance Program receives funding from the U.S. Department of Energy. In Tennessee, the program is currently administered by the Tennessee Housing Development Agency, which subcontracts with local community agencies such as SCHRA and the Southeast Tennessee Human Resource Agency (SETHRA) in Dunlap, Tennessee, to provide services under the program. The program provides energy conservation changes to the homes of low-income families with households including young children, elderly, or disabled members.

SCHRA entered into contracts with a local contractor for various Head Start and Weatherization projects, and SETHRA entered into various contracts for Weatherization projects with the same contractor during the period we examined.

Weatherization contracts required the contractor to provide a wide range of services, from installing kitchen and bathroom exhaust fans to insulating attics. The Head Start contracts required the contractor to provide a range of services from supervising SCHRA's maintenance employees and creating their weekly work schedules to coordinating inspections and ensuring job deadlines were being met.

We question the propriety of the contracts entered into by the contractor and \$134,992 (Section A - \$126,208 and Section E - \$8,784) in payments as follows:

A. *We noted questionable billing practices.*

On nine different days in fiscal year 2014, the contractor was paid for work on a Head Start construction project at the same time his company was paid for a Weatherization project having the same invoice dates. On seven of the days, jobs were invoiced for SCHRA, and on two days jobs were invoiced for SETHRA. The contractor's invoices for Weatherization projects failed to show the actual dates the work was completed. In May 2015, the contractor told us that he completes invoices for Weatherization projects within a day or two of the project being finished, and he tries to invoice projects in groups, which would explain having several projects with the same invoice date.

Also, the contractor told us that when he worked on Head Start projects, he did not believe his contract required him to actually be on-site working on the project. He estimated that 75 percent of the time, he was actually on-site at Weatherization projects rather than Head Start projects. However, when we reviewed the contractor's progress reports submitted to SCHRA for payment, he indicated in those progress reports that he was on-site the majority of the time for Head Start projects rather than Weatherization projects, an indication the contractor misrepresented the work being completed. The contractor stated that he would bill the agency \$250, the maximum daily charge on a Head Start project, if he received a phone call about a Head Start project but was physically working at a Weatherization project. We noted the billing sheets submitted by the contractor for the Head Start projects did not indicate he was charging \$250 simply for taking a phone call. This contradicts the contractor's statements and indicates the work listed on the billings could be falsified. SCHRA's director of fiscal operations stated he believed the contractor was required to be on-site working the Head Start project in order to be paid, while SCHRA's executive director stated that he didn't believe the contractor had to be at the Head Start project site to be paid. The contract was silent as to physical presence being required in order to receive a day's payment.

We also noted when the contractor was on vacation with his spouse (the assistant director of fiscal operations at SCHRA), at various times his progress reports indicated he was on-site at the Head Start projects.

Due to the inconsistent statements of the contractor, the methods in which the contractor was billing the projects, and the misunderstanding by SCHRA management of when the contractor should be paid, we question the propriety of the contracts entered into by SCHRA with this contractor, as well as potential abuse by the contractor of billing a government agency in this fashion. We noted questioned costs of \$126,208 for the weeks the contractor reported being on-site at a Head Start project when he was on vacation and when he was at a Head Start project at the same time he invoiced a Weatherization project.

B. *SCHRA had an undisclosed conflict of interest.*

SCHRA's assistant director of fiscal operations violated the agency's conflict of interest policy when she failed to disclose that the contractor was her husband. SCHRA requires employees to complete conflict of interest forms annually to

disclose any potential conflicts of interests. The assistant director of fiscal operations is responsible for the agency's general ledger and recordkeeping for the Head Start and Early Head Start programs, and along with other financial responsibilities, assigns permissions and access to the agency's accounting systems. She received the approved progress report/invoice for payment to the contractor, completed the voucher to initiate the payment for the contractor's projects, and requested the check for payment to the contractor be returned to her when signed. After we questioned the agency about this relationship, the conflict of interest was disclosed to the Head Start Policy Council in December 2014, and to SCHRA's Board in March 2015. The executive director was aware of the conflict of interest but did not require the conflict to be documented in any agency records, nor did he implement any compensating controls to mitigate the risks associated with the conflict of interest.

C. *The contractor did not have a valid contractor's license.*

The contractor did not have a valid contractor's license from at least December 2012 until July 2013. The State of Tennessee requires a contractor's license when contracting for a project costing \$25,000 or more. Weatherization policies require installers to have a current Tennessee General Contractor or Home Improvement License issued by the State of Tennessee. SCHRA failed to ensure the contractor had a valid license for either the Head Start or Weatherization projects completed between December 2012 and July 2013, and paid the contractor \$45,826 during the time the contractor was not properly licensed. The contractor stated that he purchased his former partner's share of their company in November or December 2012. The contractor operated under the partnership contractor's license until July 2013. Section 62-6-111(e)(1), *Tennessee Code Annotated*, states, "Whenever a partnership licensed as a contractor dissolves, no former member of the partnership shall further undertake contracting before filing a new application with the board and receiving a license."

D. *The contractor was an authorized user on SCHRA's charge accounts at Home Depot and Lowes.*

SCHRA's credit card purchase policies specifically address the signing in and out of certain credit cards; however, not all of the agency's charge accounts require a user to have the actual credit card to make purchases on the charge account, including Home Depot and Lowes. With the exception of this contractor, agency practice has been for only employees to have charge account privileges; however, the policy does not address who appropriate users of charge accounts should be. We reviewed SCHRA purchases from Home Depot and Lowes; however, we could not determine from the billing statements what may have been used for Head Start projects or other projects of the contractor unrelated to Head Start. In addition, by using the agency's charge accounts, the contractor did not pay sales tax on the purchases due to SCHRA's tax-exempt status. Sound business practices dictate that no one other than agency employees should be authorized to use SCHRA charge accounts.

- E. *We noted questionable billings of the subcontractor hired as an SCHRA employee, who continued working on side jobs for the contractor.*

The contractor advised us that he had two subcontractors: one full-time and one part-time. During the examination period, SCHRA hired the full-time subcontractor as a full-time employee of SCHRA. We noted this employee rarely worked full-time hours for SCHRA but instead continued to work for the contractor. The contractor did not keep time sheets on this employee but stated that the employee either worked for him or the agency each complete day and did not split his workday on the jobs. We noted payments made to this employee by the contractor that overlapped days he was working at SCHRA; therefore, we question \$8,784 that SCHRA paid to the employee.

- F. *The contractor was paid \$8,750 for Head Start projects not covered by a contract or memorandum of understanding between the contractor and SCHRA.*

We noted two instances during our examination when the contractor was paid with no contract or memorandum of understanding in place. The contractor had multiple contracts for each project; however, we noted periods of time between contracts when the contractor was paid although there was no contract. These payments do not relate to the questioned costs noted in part A. above.

- G. *SCHRA did not bid the construction manager position for Head Start projects.*

SCHRA hired the contractor as the construction manager for two different Head Start projects in two cities, and the contractor was paid \$96,000 for work on the Head Start projects over three fiscal years. SCHRA Procurement Regulations, Section 4(d), requires bids for the purchase of materials and services costing at least \$5,000, and further states all procurements must be conducted in a manner to provide maximum open and free competition. This construction manager position should have been bid by SCHRA.

## **RECOMMENDATION**

SCHRA should review its contracts for Head Start and Weatherization projects for propriety to determine there are no questionable billing practices by the contractor. No payments on contracts should be made unless both parties are in agreement that work has been performed and the projects have been completed. SCHRA should determine the propriety of the \$134,992 paid to the contractor and former employee for the period. Agency leadership should take steps to rectify issues of employees' non-disclosure of conflicts of interest on their annual forms, implement proper controls to mitigate risks associated with these conflicts, and review annual conflict of interest statements. In addition, SCHRA should ensure all contractors have a valid contractor's license.

SCHRA should not allow non-agency employees or agency contractors to use agency charge accounts or credit cards. Contractors should pay sales tax on all supplies and materials used in the agency's Head Start projects and should not use the agency's tax-exempt status to make purchases. SCHRA should report this sales tax deficiency to the Tennessee Department of Revenue and resolve this issue. No project payments should be made except

through an approved contract or memorandum of understanding with SCHRA. The agency should follow its own procurement policies to ensure competitive bids are obtained for any services costing at least \$5,000.

## **MANAGEMENT'S RESPONSE — JAMES COY ANDERSON, FORMER EXECUTIVE DIRECTOR**

### **A. Questionable billing practices.**

The project manager owns a company, which served as a contracting entity for both SCHRA and SETHRA Weatherization programs. Traditionally contractors have multiple projects going at the same time. Contractors are not required to be on-site for any specified amount of time while work is performed for Weatherization Assistance Projects (WAP). Therefore, the project manager may have been present but not the entire day. This would indicate the potential for providing oversight at various locations when comparing days billed.

Weatherization jobs are awarded by contract after the bid opening and negotiation process is completed. The contractor is given a specified period for completion of the job. Contractors are not required to inform the agency on what specific day(s) actual work is being conducted on the job as is the case on most contracted jobs regardless of if they are WAP jobs. Some jobs may take a day, and some may take a week. Sometimes issues arise, and there may even be a lapse in days where no work is done of the job. Historically, the day the invoice is submitted has been the day the contractor considers the job complete. The invoice triggers the post audit, and then after a satisfactory audit, the contractor is paid. A contractor may have been awarded three jobs, may work on them three different weeks, but may have the same day on the invoice because the contractor could turn them in on the same day on the same invoice indicating their completion.

There are also no regulations that the agency is aware of that require a contractor to actually be on the work-site at all times. Most contractors have a crew that performs some if not all of the actual work. The contractor is only required to make sure the work is performed correctly according to the terms of the contract. There are also no known regulations mandating what hours of the day or which days of the week that the actual work has to be performed. Therefore, it is the agency's position that it is possible for the contractor to have performed or have had the work performed for Weatherization contracts regardless of what other contracts he may have been involved with during the same period of time. The agency does not agree with any questioned costs regarding any Weatherization contracts.

Additionally, the memorandums of understanding for the Head Start Manchester and Columbia projects are mute on the requirement to be on-site when scheduling, consulting, or communicating with management, employees, and other subcontractors needed to ensure the timely completion of the projects.

Therefore, SCHRA holds that the project manager (Head Start) and contractor (WAP) were paid in accordance with the memorandums of understanding and

contracts entered into with the agency. Payments were made as set forth in these agreements as well.

***Corrective Action:***

Weatherization jobs will include a work contractor completion date. Memorandums of understanding will include a conflict of interest clause for the contractor to disclose any potential conflicts of interest that exist between them and the agency.

Memorandums of understanding will include details on cost billing and, if necessary, include a prorated rate for partial days of work.

**B. Undisclosed conflict of interest.**

SCHRA concurs that the appearance of a conflict of interest was not disclosed in writing.

The assistant director of fiscal operations did not disclose the conflict of interest in writing, which is a failure to follow SCHRA's Conflict of Interest Policy. The executive director and the director of fiscal operations were aware of the conflict of interest between the project manager and the contractor when entering the agreement; however, they failed to inform the agency Board.

***Corrective Action:***

The executive director did not require the conflict to be documented because he believed there was one on file, and fiscal policies and procedures were in place to mitigate the possibility of risks. Now, these will be verified and copied to report conflicts that may affect agreements entered into by the agency with organizations.

SCHRA revised the Conflict of Interest Policy to give examples of possible conflicts of interest to help employees understand the definition. Annual training on the Conflict of Interest Policy is provided to all employees along with using the Conflict of Interest Certification Form to report any known problems the employees are aware of and will provide continuing opportunities for employees to report any conflicts. Any reports of conflicts on the Certification Form are shared with the executive director and the Board chairperson in compliance with the additional revision of the policy to include dual reporting to both parties.

SCHRA has added to the annual training on the Conflict of Interest Policy, the necessity to report any potential or real conflict of interest upon becoming aware of the conflict. This informs the employee of the need to report upon knowledge and not to wait until annual training.

**C. Contractor did not have a valid license.**

SCHRA does not concur.



A copy of valid contractor's license was on file with the WAP program. The agency used [verify.tn.gov](http://verify.tn.gov) to verify that according to the records with the Tennessee Department of Commerce and Insurance, the contractor had an original license date of March 23, 2000, and an expiration date of July 25, 2013. He subsequently had a different license number with an original date of July 31, 2013, and an expiration date of July 31, 2017. Therefore, according to the records on file with the State of Tennessee, this contractor had a valid license for all but five days, and there were no Weatherization jobs awarded or completed during this time frame. The agency does not agree with any questioned costs related to the Weatherization program.

**D. Contractor was an authorized user on SCHRA's charge accounts at Home Depot and Lowes**

SCHRA concurs that the project manager was on both credit card accounts. The contractor was added in order to pick up items for the work-site and reduce delays for employees who were working at the site. All purchases made for the projects had the proper requisitions submitted to the Purchasing Department, and agency purchase orders were issued to the vendors (Home Depot and Lowes) for said purchases. Additionally, the contractor had over 20 years of experience of impeccable service on contracts performed for the agency with no indication of impropriety. However, SCHRA does understand that this practice could be misused, and consequently the corrective action is noted below.

***Corrective Action:***

Credit card accounts have been reviewed to identify and remove any user who was a former employee or nonemployee. In order to add a user to any account, the user must be an employee and be in a position where purchasing on the account is necessary to complete their duties as an employee. The executive director, the director of fiscal operations, program director, and the purchasing officer approve the addition of a user to any charge account. A list of users is maintained by the purchasing officer on all accounts, and upon termination of employment, removal of the employee from the account is processed immediately.

Additionally, when users on a charge account pick up items, an additional employee must verify receipt of goods upon delivery to ensure items purchased are received at the work-site/location.

**E. Questionable billing of the subcontractor hired as an SCHRA employee, who continued working on side jobs for the contractor.**

SCHRA does not concur with the questioned costs because sign-in/sign-out sheets and time sheets approved by the program director verify all hours worked by the subcontractor and indicate the work was performed.

The subcontractor hired by SCHRA to work on the two Head Start projects was hired as a temporary employee. The subcontractor has an employee action form indicating the temporary status with a start date of May 21, 2012, and an employee action form for termination on December 19, 2012; however, employment

records show the employee did no work and received no pay for any pay period ending after November 30, 2012. The subcontractor was brought back to work through the instruction of the executive director and the director of fiscal operations on May 22, 2013; however, they did fail to complete the proper employee action form to initiate the re-employment until July 3, 2013. The subcontractor was terminated with an employee action form on December 6, 2013; however, the subcontractor did no work and received no pay for any pay period ending after November 30, 2013.

During this period, SCHRA's Weatherization director informed the contractor that this subcontractor could not work on Weatherization jobs while being a temporary employee of SCHRA. However, the employee could work on other projects/jobs the contractor had with other private interest. SCHRA understands that citizens are allowed to work for more than one employer at any given time, and the rate of pay for those other positions is not under the control of the agency. Regarding the subcontractor rarely working "Full-Time" weeks, the employee worked as needs arose and did not work when, during the normal construction process, there were waiting periods for inspections, or when the regular full-time staff working on the project could get the available work completed without the subcontractor.

***Corrective Action:***

SCHRA has no evidence that duplicate hours were billed for SCHRA projects and therefore does not concur with the questioned cost of \$8,784 in this report. SCHRA verified hours worked and paid through sign-in/sign-out sheets and approved time sheets submitted by the temporary employee. However, we concur with the noted lack of employee action form from May 22, 2013, through July 2, 2013, for which payroll records indicate an amount of \$2,256 was paid. (Also reference Finding 5.(8)).

**F. The contractor was paid \$8,750 for Head Start projects not covered by a contract or memorandum of understanding.**

SCHRA concurs with the finding due to an error in revising the "not to exceed" date on the September 14, 2012, memorandum of understanding and no extension on the memorandum of understanding dated December 1, 2013.

***Corrective Action:***

Implement a system to verify billing of contractors to coverage dates on contracts and memorandums of understanding.

**G. SCHRA did not bid the construction manager position for Head Start projects.**

The on-staff contractor's unavoidable leave caused delays in work and scheduled completion deadlines, which in turn jeopardized funding for the two projects. Funding for the two Head Start projects was approximately \$500,000. Because both projects had incurred expenses and were in jeopardy of failing to meet completion deadlines in agreements the agency had made with the grantor, the executive director and the director of fiscal operations deemed the need for a

project manager to be an emergency and issued the memorandum of understanding without bidding the services. The memorandum of understanding was issued to a contractor with sufficient licensing and qualifications to provide *professional services* as a project manager to oversee the completion of the Head Start Manchester and Columbia projects. SCHRA Procurement Procedures state the following in its bidding requirements: "*All purchases for materials and services, excluding professional or technical services, shall follow the bid requirements.*" (See Finding 5.(C.)).

***Corrective Action:***

The executive director and the director of fiscal operations will document and provide a detailed description of the reasons for not bidding professional services where crisis management decisions are made. This documentation will also be shared with SCHRA's Board prior to entering a memorandum of understanding to ensure a comprehensive decision is made to address an emergency need of the agency.

The executive director will ensure internal monitoring of ongoing projects to determine the timely progress toward completion. This monitoring will include the completion of the Procurement Oversight Form implemented in the fall of 2015. This form was developed to comply with the Federal 45 CFR Part 74 (Universal Administrative Requirements) regulations for documented ongoing oversight over projects and will support this corrective action plan as well. The Procurement Oversight Form will be included in project files as well as communicated with directors, the executive director, director of fiscal operations, and others who may be in a need-to-know position with regard to individual procurement projects.

**INVESTIGATOR'S COMMENTS TO MR. ANDERSON'S MANAGEMENT RESPONSES FOR FINDING 1 – A, C, E, AND G**

- A. We noted numerous questionable billing practices and statements made by the contractor that contradicted the documentation on file at the agency. The contractor advised that he spent 75 percent of his time at Weatherization projects rather than Head Start projects; however, documentation provided by the contractor for payment indicated the majority of his time was spent at Head Start projects. In addition, the contractor advised he would bill the agency \$250, the maximum he could charge on a Head Start project per day, if he received a phone call about a Head Start project while physically working at a Weatherization project, thereby charging both projects the maximum per day. We found no documentation on contractor billing sheets indicating the contractor was charging \$250 simply for taking a call. We also noted these billing practices while the contractor was on vacation. The agency's director of fiscal affairs, who also approved payments to the contractor, believed the contractor was on-site for the days he was paid. The contractor had one full-time and one part-time employee during the period examined. The full-time employee was also a full-time employee of the agency. The contractor did not keep time sheets on this employee but stated the employee either worked for him or the agency each complete day and did not split his work-day on the jobs; however, we noted payments made to

this employee by the contractor that overlapped days he was working at the agency. Therefore, we question the payments for multiple Weatherization Assistance Program projects as well as five days of Head Start work in the same week, based on the number of staff employed by the contractor.

- C. We were advised by the contractor that his partnership ended in November or December 2012, when he bought his partner's share of the business. State law requires a new license when ownership of a company changes. In the event the agency uses a contractor without a valid license, the agency would assume liability for any damages to property or injuries to individuals during the project.
- E. The contractor's one full-time employee was hired by the agency on May 21, 2012. He was hired as a temporary employee with remarks on his Employee Action Form stating, "Employee should be working minimum 40 hours per week until Manchester Head Start Project is complete." According to Section 208.1 of the agency's *Personnel Policies and Procedures Manual*, "The normal work schedule for all employees is 7.5 hours a day, five consecutive days a week." Employment was terminated in December 2012. This person was rehired on May 22, 2013, as a temporary employee with a standard work week of 37.5 hours. According to the contractor and the executive director, the employee did not work Head Start and Weatherization jobs on the same day, but the contractor failed to keep hourly time records. In addition, time records maintained by SCHRA contradict these statements. We calculated hours worked based on the hourly rate the employee reported on his SCHRA employment application as being paid by the contractor. We questioned costs for weeks where the employee was paid for more than 40 hours total by both SCHRA and the contractor.
- G. The construction manager position was not a professional service per *Tennessee Code Annotated*, Section 12-4-106, the statute in place at the time of the hiring. In addition, we believe the agency had a reasonable time to properly bid this position.

#### **MANAGEMENT'S RESPONSE — PAUL ROSSON, EXECUTIVE DIRECTOR, AND THE SCHRA BOARD AUDIT COMMITTEE**

##### *1 A. We noted questionable billing practices...*

##### **Agency Response to finding 1 A. We concur to the following:**

The Audit Committee of SCHRA met with staff from the Tennessee State Comptroller's Office in late January 2016, to discuss the exit findings of the Comptroller's Office. The former Executive Director, James Coy Anderson, was informed by the Audit Committee of their displeasure at these findings and was questioned as to the validity of the report. Mr. Anderson was given time by the committee and the Comptroller to answer the findings. Subsequently, Mr. Anderson answered the findings on February 5, 2016, and resigned from SCHRA as of February 29, 2016.

The agency board reached out to former County Mayor Paul Rosson to take over the day-to-day operations of the agency as of March 1, 2016, on an interim basis. Mr. Rosson holds both a Bachelor's and Master's degree. He served 8 years with the Office of District

Attorney in the 22nd Judicial District, 4 years as County Mayor, and for the past 6 years he has worked for the Tennessee Department of Finance and Administration as a Program Manager/Monitor. Mr. Rosson has substantial grants management experience and governmental operations experience. The board voted to appoint Mr. Rosson as the permanent executive director in Mid-March 2016.

Mr. Rosson was tasked with vetting the findings from the Comptroller and looking at the overall operation of the agency. A meeting was held with members of the agency's Audit Committee and the investigative team of the Tennessee State Comptroller's Office. The investigative team revealed a more detailed explanation than the initial report. Based upon the information given by the investigative team, and the admitted lapses in financial internal controls filed in the initial responses by the former executive director, the agency's Director of Fiscal Operations was terminated on April 5, 2016. Additionally, the agency's Assistant Director of Fiscal Operations was also terminated on this date. These terminations were vetted through the agency's attorney.

The contractor is currently on contract with SCHRA as a weatherization auditor. Based on the findings of the Comptroller's Report, and information shared by the Comptroller's investigative team, the contract with this individual has been terminated for convenience. We have requested a detailed schedule of questioned cost from the Tennessee Comptroller's Office. The amount of questioned cost associated with these findings will be determined.

*1 B. SCHRA had an undisclosed conflict of interest...*

**Agency Response to finding 1 B. We concur to the following:**

The Assistant Director of Fiscal Operations did violate the conflict of interest disclosure procedures of SCHRA. As part of the of Comptroller's Report and investigative team meeting with members of the Audit Committee, the Assistant Director of Fiscal Operations was terminated from the agency on April 5, 2016. The termination was vetted through the agency attorney. Going forward, the agency will expect all employees and contractors to follow the conflict of interest disclosure per agency policy.

*1 C. The contractor did not have a valid contractor's license...*

**Agency Response to finding 1 C. We concur to the following:**

The contractor did have a contractor's license listed on the State website. However, the license was for the contractor's former business partnership. He waited until it had expired and then received a new license. Going forward, SCHRA will make sure all contractors are licensed according to program standards.

*1 E. We noted questionable billings of the subcontractor hired as an SCHRA employee, who continued working on side jobs for the contractor...*

**Agency Response to finding 1 E. We concur to the following:**

Upon review of the requested detailed questioned cost, actual questioned cost will be determined. Going forward, a contractor will not be allowed to hire an employee of the agency as described in this finding.

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**FINDING 2                      MULTIPLE DEFICIENCIES EXIST IN THE COMMUNITY REPRESENTATIVE PAYEE PROGRAM**

**Community Representative Payee Program History**

The United States Congress passed legislation in 1939 that granted the Social Security Administration (SSA) authority to appoint representative payees for beneficiaries judged incapable of managing or directing someone else to manage their Social Security benefits. When family and friends are not available, organizational representative payees are used. As an organizational representative payee, SCHRA provides management of Social Security and Supplemental Security Income benefits for about 200 individuals in the 13 counties it serves.

We noted the following deficiencies in the Community Representative Payee Program (CRPP):

- A. *SCHRA failed to report \$19,536.58 in unclaimed property to the Tennessee Department of the Treasury as required by state law.*

Section 66-29-113, *Tennessee Code Annotated*, requires an annual reporting of unclaimed property. These reports must be filed before May 1 of each year and include property held as of the previous December 31. As of June 30, 2014, SCHRA was holding \$19,536.58 for 12 CRPP clients who died between December 2011 and April 2014, and the agency had not filed the proper annual reports.

- B. *We could not determine who used \$11,604 in gift cards charged to client accounts.*

The agency does not maintain all documentation and does not use consistent practices regarding the use of Wal-Mart gift cards purchased for CRPP clients. The agency does not maintain a log of cards in its possession or documentation of the balances on those cards. Also, the agency does not require a signature from clients who pick up the cards or whose cards are sent by mail to verify that the client received the card.

- C. *The program director over the CRPP expended \$1,502.16 in funeral expenses for a deceased client citing Section 45-2-708, Tennessee Code Annotated (TCA), as her authority.*

This statute applies to banking institutions and not the human resource agency. The \$1,502.16 should have remained part of the recipient's estate. If no relative or

beneficiary is designated, the funds should have been processed as unclaimed funds in accordance with Section 66-29-110, *TCA*, and in compliance with the Uniform Disposition of Unclaimed Property Act. These funds are due back to the estate.

- D. *We noted \$545 in unsupported transactions during our review of client files.*

According to the agency's procedures and guidelines, a copy of a purchase order should be retained in the client's file in the CRPP Office, and the original approved document should be filed in the Accounting Department. In a sample of 28 client files, we reviewed and compared Accounting Department files with CRPP Office files for documentation of payments made directly to the client by SCHRA. We noted missing purchase orders for 7 of the 28 CRPP client files reviewed.

- E. *The agency does not provide budgets and statements for its CRPP clients.*

The *SSA Guide for Organizational Representative Payees* encourages, but does not require, the payee to go beyond managing finances and to become actively involved in the beneficiary's life, including explaining social security payments and the beneficiary's expenses and involving the beneficiary in establishing a budget and making financial decisions. Agency staff stated they do not provide budgets or statements because their clients do not understand accounting.

- F. *The agency does not regularly review individual client and expenditure accounts to ensure there is no unauthorized activity.*

The agency does not reconcile CRPP bank accounts with the CRPP ledger, which reports account detail by client as required by SSA. SCHRA reconciles the bank account with the check register, which is separate from the detailed CRPP ledger. This reconciliation would minimize risks of unauthorized activity and reveal any inappropriate activity in client accounts.

- G. *The agency does not have a written agreement on file with a client for which the agency manages both SSA and non-SSA funds.*

According to the *SSA Guide for Organizational Representative Payees*, beneficiaries may authorize the deposit of non-social security funds into a collective payee account as long as the accounting records clearly show deposits for the different types of social security benefits. While the agency does account for the funds separately, there is no written agreement on file between the agency and the client regarding the agency's management of these funds.

- H. *The agency improperly withheld funds from a client in an effort to make the client provide receipts for personal needs spending and incorrectly told the client that SSA only allowed \$30 for personal needs per month without receipts.*

According to the SSA's representative payee coordinator for the Atlanta Region, once all immediate needs of clothing, food, and shelter are met, the agency cannot withhold a person's use of their funds unless releasing the funds is detrimental to that person. For clients living in institutions, SSA requires the payee to set aside at

least \$30 per month for the personal needs of the client that would not ordinarily be provided by the institution. There is no such dollar value requirement limiting the amount of funds to be set aside for the personal needs of individuals not living in institutions. The individual in question was not institutionalized, so the agency had no reason to withhold funds. The agency requires documentation of personal needs spending via receipts submitted by the client monthly; however, the agency did not adequately maintain client-submitted receipts.

- I. *The agency does not provide current training to CRPP staff regarding the federal CRPP policies and procedures.*

SSA's *Guide for Organizational Representative Payees* provides a best practice to provide training for employees who will have access to beneficiary funds or who will be responsible for assessing beneficiary needs and purchasing goods or services for beneficiaries. Training documents at the agency were outdated, and current staff was not aware of online resources for the program. The previous program coordinator was the only person any current staff member could think of who might have had external training regarding the program.

- J. *We observed multiple pieces of unopened mail from the SSA in client files.*

We noted unopened mail in 15 of 28 client files examined. According to the SSA's representative payee coordinator for the Atlanta Region, this would be an issue of concern because the agency would not be aware of changes in benefit amounts, changes to the agency's status as payee, and any other changes regarding its clients made by SSA. We also noted multiple documents filed in the wrong client's file.

- K. *The agency has limited internal control policies regarding CRPP.*

The agency has not created its own policies regarding the issuance of Wal-Mart gift cards, clients' requests for additional funds, issuance of checks in the event of a client emergency, etc. As a result, the current CRPP coordinator does not have adequate guidance to aid in routine decisions regarding CRPP.

## **RECOMMENDATION**

SCHRA should make every attempt at contacting clients' families to turn over client funds and submit annual reports of unclaimed property to the Tennessee Department of the Treasury. Unclaimed funds should be turned over to the Department of the Treasury in a timely manner. The agency should obtain and maintain proof that gift cards are received by the intended client. The agency should replace the \$1,502.16 inappropriately expended from a client's account for funeral expenses. The agency should ensure proper transaction documentation is maintained in both the client's accounting files and the Community Representative Payee Program files. The agency should assist clients with their budgets and should send account statements to individuals at recurring intervals that detail income and expenses incurred and show the client's accumulated account balance. The agency should reconcile the bank account with the individual client accounts to ensure all funds are expended as authorized. For any clients who have funds in addition to their SSA funds deposited and managed by SCHRA, there should be a written agreement regarding the



funds and a detailed explanation of their usage. SCHRA should ensure staff are aware of spending limitations imposed by SSA and do not deny a client's reasonable request for available funds when all of their immediate needs are met and funds are available. SCHRA should obtain and maintain current training for CRPP staff. The requirements and benefits of these programs change often, so keeping up-to-date will help ensure the agency's compliance with program policies. SCHRA should ensure mail is opened and records appropriately filed. SCHRA should expand internal control policies regarding CRPP to include, at a minimum, the issuance and treatment of gift cards, issuance of emergency expenditures by clients, and any other issues that are consistently dealt with, including required actions with other agencies. By providing written policies and procedures for controls, the program coordinator can make routine daily decisions in administering CRPP.

**MANAGEMENT'S RESPONSE — JAMES COY ANDERSON, FORMER EXECUTIVE DIRECTOR**

- A. We do not concur. SCHRA had researched policies regarding handling deceased beneficiary funds. In reviewing the Tennessee Department of Revenue's website, the agency erroneously interpreted the information to indicate that reporting was not required until the five-year dormancy period had elapsed for fiduciary funds. The following is from the state's website: "How long must an account be dormant before it is considered abandoned? In Tennessee most property types are presumed abandoned or unclaimed if there has been no account activity for five years. However, wages and utility deposits are presumed abandoned or unclaimed after one year." Also, "What are the various dormancy periods for particular property types? The dormancy periods vary depending on the type of property. For most general ledger property other than payroll, the dormancy period is five years."

However, we do not agree with the amount of funds in question. All but \$7,412.53 of the funds would not have even been considered delinquent until after May 1, 2015. The funds that were abandoned by clients who deceased from January 1, 2014, through December 31, 2014, were not due until May 1, 2015. SCHRA did in fact submit the report and funds to the Tennessee Department of Revenue on all clients who were deceased prior to December 31, 2014, by the May 1, 2015 deadline. The agency is required to perform due diligence to try and locate heirs, who must be given the opportunity to proceed through probate court instead of funds being automatically submitted to the unclaimed property division of the state.

***Corrective Action:***

All funds and reports were submitted in accordance with Section 66-29-113, *Tennessee Code Annotated*, as of May 1, 2015.

- B. The *Social Security Payee Best Practices* states, "Instead of disbursing spending money by check or cash, some payees use gift cards or debit cards from a retail store." SCHRA has always tried, when feasible, to take the client to Wal-Mart with the gift card, and the client signed the receipt at that time. Our staff is limited because this is a self-funded program, which does not receive any tax dollars to operate; therefore,

we were not always able to do this. In those circumstances, when clients called requesting cards and we could not accompany them, the card was mailed to them with their weekly personal spending check. These cards were logged in a tablet with the signatures of a CRPP employee and the agency receptionist verifying that the card had been placed in the envelope with the check and mailed. The client was informed that the card had been mailed, and receipts from card purchases should be mailed in with their monthly receipts to save them money instead of mailing in separately. SCHRA maintains all receipts that clients send in monthly in their envelope, by month and stored in a collective box. SCHRA asked the Comptroller's Office if they wanted to take these receipts, and they declined. Had these receipts been reviewed, SCHRA believes this would have verified that the client received and made purchases with said card.

SCHRA does concur that even though cards were kept in a safe, there was no other documentation maintained of those cards or balances. However, we do not concur that the agency did not know the balances on the cards. Each card in the safe had along with it the original purchase receipt along with a signed receipt reflecting the balance of any cards that had already had purchases made on them by the client. This has since been corrected in that cards are not purchased until the day we are able to go take the client shopping or they are able to come pick it up. If a client requests a Wal-Mart card and we are not able to travel to take them shopping or they cannot pick it up, their request will be denied until such time we can go with them. Cards are no longer mailed since this does not allow for a signature to be obtained. However, SCHRA did previously obtain signatures on cards that were picked up and continues to do so contrary to the finding. The Comptroller's Office did make calls and visits to clients for whom SCHRA had purchased cards, and to our knowledge there were no reports from clients stating they never received their cards. Hopefully if there had been such reports or evidence of misuse of client funds, it would have been brought to the agency's attention before nearly a year had elapsed considering the possibility that the situation could still be ongoing.

***Corrective Action:***

Gift cards are no longer mailed to clients. Additionally, cards picked up in person are logged and signed for by the client.

- C. According to Social Security's *Guide for Representative Payees*, SCHRA contacted the local probate court for instructions on how to handle deceased client funds. On July 21, 2014, the clerk and master, knowing that SCHRA was not a bank, sent us a copy of Section 45-2-708, *Tennessee Code Annotated*, which references payment when no executor or administrator qualifies: "(2) In the absence of knowledge of a purported will naming a surviving executor to: (A.) A creditor for expenses of the funeral" and told us that we should go by this code. Therefore, SCHRA followed instructions that we believed to be correct according to the guidance provided to us by the probate court and did send conserved funds to the funeral home on January 13, 2015.

***Corrective Action:***

If no will or estate has been probated, all unclaimed property is forwarded to the Tennessee Department of the Treasury, Unclaimed Property Division. No further expenses are paid upon notification of death.

- D. SCHRA concurs that there is the possibility, due to the fact that approximately 2,000 purchase orders are copied monthly and subsequently filed in the client files, that some may not get copied and placed in the correct file. Every effort is made to watch the papers as they go through the copier, but on occasion the copy machine pulls two through at once. It is not time/cost efficient for an employee to run each purchase order through the copier individually. The originals were found in accounting files that correlate with the expenditures on client ledgers. This was not a case of any funds being expended fraudulently. This was a case of human and copy machine error.

***Corrective Action:***

SCHRA has acquired more man-hours to address the volume of paperwork and filing. Additionally, a quarterly sampling of purchase orders issued and paid for clients will be pulled to monitor filing accuracy.

- E. The agency does provide budgets and statements to all clients who request them. They also inform the client of their balance at any time they request the information. Statements were previously sent to clients quarterly, and most got confused by them even when caseworkers sat down with them and tried to explain it to them. There was also indication that other family members or acquaintances of the clients had reviewed the information sent and tried to exploit them based on reported balances. This is based on verbal reports from vendors or caseworkers who communicated with CRPP staff after the reports had been mailed. As stated in the finding, this is not a requirement; therefore, we chose to only provide statements upon client request. This is also in the Board approved policies for the program that were submitted to Social Security prior to their last monitoring visit.

***Corrective Action:***

There is no known requirement to submit these reports; however, upon request from the client, we will continue to provide the statements.

- F. Although the agency did not regularly document reconciliation of client expenditures prior to April 2015, the program director did and still does in fact regularly review all expenditures in all client ledgers to ensure no unauthorized activity. However, the agency's receptionist is now reconciling the check register with the purchase order ledger, and the program director is continuing to review all expenditures monthly.

***Corrective Action:***

The agency receptionist is reconciling the check register with checks issued by the Accounting Department. Upon completion, this reconciliation is returned to the

Accounting Department. Any discrepancies in the reconciliations shall be reported to the program director and the director of fiscal operations.

- G. We concur. The agency did not have a written agreement on file for every client for which we manage their benefits but did have one for some of the clients. The agency has been making efforts to correct this issue for the clients who did not have one on file.

***Corrective Action:***

The CRPP Department staff is in the process of obtaining written agreements for all clients assigned by the Social Security Administration.

- H. The agency does not concur. SCHRA was told during their first monitoring review from federal monitors with the Social Security Administration that if the client did not submit receipts, we only needed to send them \$30 personal spending money per month. Therefore, we told the clients the same. However, in reviewing all client ledgers that were served from January 2014, until December 2015, no one received only \$30 per month sent directly to them for their use unless they were in an institution or did not have funds available regardless of whether they sent receipts. Per instructions from the Social Security Administration, we do require clients to submit receipts monthly. Addressed envelopes are mailed to each client monthly. When the receipts are returned, they are reviewed for monetary reconciliation only, placed in numerical order, placed in a filing box per month, and stored. These are the same boxes investigators were asked if they wanted to review but declined; therefore, the agency does not agree with the statement “the agency did not adequately maintain client submitted receipts.” Due to the size of these envelopes, there is no way to keep them all in individual client files, but they were and still are stored in the agency archived files for review.

***Corrective Action:***

Due to guidance provided by the Social Security Administration monitor from Atlanta in 2009, SCHRA maintains this was an allowable practice. However, the agency will seek further guidance from the Social Security Administration regional office, and upon clarification, will provide clients information concerning their allowable allocation of money without receipts.

- I. We concur. The training documents were outdated (2011), but no significant differences have been noted in reviewing newer publications. Staff has been made aware of online resources and encouraged to reference them often.

***Corrective Action:***

Staff will continue to keep updated by the online resources. This will be documented through the use of a training log identifying the time, date, and subject reviewed.

- J. We concur. The agency received a separate notice for each client that the allowable fee the agency can charge had increased by \$1, and a few were opened to verify that the

bulk of letters received together were identical. Therefore, since the majority of staff time needs to be devoted to taking care of client needs, the envelopes were placed in each file without taking the time to open every single one of them. We also receive mass mailings informing them that there are no cost-of-living raises on occasion, but we always determine what is in the mailings. Also, we receive copies of client EOBs, which we do not consider something we need to open, but we may place in their file in the event the client needs a copy at a later date. Individual Social Security mailings are opened daily, and staff reconcile the deposit amounts received upon receipt into the bank with what we have on record; therefore, we are aware of any changes that might have been made to the client's benefits or status as payee even if for some reason we did not even receive written notification. We do acknowledge that human error can occur in filing due to the sheer volume that is required in the program and vast array of other priorities necessary to take care of the needs of our 200 plus disabled clients.

***Corrective Action:***

All client correspondence will be opened. SCHRA has acquired more man-hours to address the volume of paperwork and filing. Additionally, a quarterly sampling of purchase orders issued and paid for clients will be pulled to monitor filing accuracy.

- K. We concur. The agency has limited written policies due to each client and their needs being so diverse. In the CRPP program there are no two cases exactly alike, and each situation requires individual treatment since these are individuals we serve and not just bills we pay. The Social Security Administration has reviewed our Board-approved written procedures for the program and has found them satisfactory at each monitoring visit. Emergency situations are handled daily as needs arise. Requests are reviewed weekly to ensure fund availability before issuance.

Note: SCHRA has been monitored as recently as July 16, 2015, by the Social Security Administration and had no findings or deficiencies. They reviewed our Board-approved policies and procedures, examined client files and ledgers, segregation of duties, and commended the agency on the work done.

***Corrective Action:***

The agency has expanded its policies for the CRPP program, since the initial Comptroller review and is in the process of expanding them further.

**INVESTIGATOR'S COMMENTS TO MR. ANDERSON'S MANAGEMENT RESPONSES FOR FINDING 2 – A, B, C, D, E, F, H, K**

- A. State law requires unclaimed funds to be reported annually to the Tennessee Department of the Treasury. Prior to May 2015, SCHRA had never submitted an annual report regarding deceased clients' funds even though it had multiple deceased clients dating back to 2011. On April 20, 2015, we informed the Community Services

director of the reporting requirement and provided contact information for the Tennessee Department of the Treasury.

- B. When presented with boxes of receipts that had not been sorted for several months, investigators declined to remove these from the agency and sort them to avoid performing an accounting function for the agency. SSA guidelines provide for the agency to charge each client \$40 per month for handling the clients' funds. Since the agency serves roughly 200-225 clients at any given time, the agency earns approximately \$8,000 to \$9,000 per month from these clients. Failure to maintain updated documentation in client files resulted in our inability to determine the Wal-Mart gift card balances for each client. In addition, we could not determine that Wal-Mart gift cards were properly spent. We reported these concerns in a meeting with the Community Services director on April 20, 2015.
- C. The funds should have been processed as unclaimed in accordance with state law and are due back to the deceased client's estate.
- D. We reviewed 28 client files and found problems in 7 of them, an error rate of 25 percent.
- E. In interviews with clients, we noted that statements and budgets were not being provided, even when requested by the client.
- F. Reconciliations are required by SSA. Documentation is necessary to show the reconciliation was performed.
- H. We found evidence within the client files that the agency was withholding funds when all other bills had been paid. Per SSA guidelines, since these individuals were not living in an institution, their funds should not have been withheld or threatened. Per the SSA, there are not defined expectations on what funds are spent on once all basic needs are met; therefore, if every receipt is not returned, as long as assurances can be made from receipts given that spending is not detrimental to the client, there is no issue.

*Undated letter in recipient file:*

This is a **third** reminder that you must send receipts to us at the end of each month. When you receive your weekly spending money, you must keep those receipts & return them to us at the end of the month in the envelope we send you around the first. This is a Social Security requirement & without receipts we are only supposed to send you \$30.00 per month. We have increased you weekly from \$75 to \$100. If we don't start receiving your receipts, we will have to lower your check.

- K. We were aware of the SSA review; however, we were not looking at the same sample, procedures, and documentation. We will provide a copy of this report to SSA.

**MANAGEMENT'S RESPONSE — PAUL ROSSON, EXECUTIVE DIRECTOR, AND  
THE SCHRA BOARD AUDIT COMMITTEE**

*2 A. SCHRA failed to report \$19,536.58 in unclaimed property to the Tennessee Department of the Treasury as required by state law...*

**Agency Response to finding 2 A. We concur to the following:**

We concur with the finding and have transmitted all funds related to this finding to the Unclaimed Property section of the Tennessee Department of the Treasury. The funds for 2014 were submitted prior to May 1, 2015, as required. The 2015 conserved funds from clients who died during 2015 have already been submitted to Unclaimed Property prior to the May 1 deadline. Going forward, SCHRA will comply with laws governing unclaimed property and Treasury laws that apply.

*2 B. We could not determine who used \$11,604 in gift cards charged to client...*

**Agency Response to finding 2 B. We concur to the following:**

SCHRA is now attaching all signed Wal-Mart card receipts to the Purchase Order and purchases are being limited to the date when the client can actually pick up the card and sign for it or SCHRA staff can take the client shopping and have them sign the receipt.

*2 C. The Program Director over the CRPP expended \$1,502.16 in funeral expenses for a deceased client citing Section 45-2-708, Tennessee Code Annotated (TCA), as her authority..*

**Agency Response to finding 2 C. We concur to the following:**

SCHRA is no longer using the guidance that was provided them by the probate court. Any conserved funds remaining after December 31 from deceased clients is being submitted to the State of TN Unclaimed Property unless next of kin has probated the client's estate. Going forward, SCHRA will comply with laws governing unclaimed property and Treasury laws that apply. SCHRA will replace the \$1,502.16 that was paid to the funeral home to the client's funds.

*2 D. We noted \$545 in unsupported transactions during our review of client files...*

**Agency Response to finding 2 D. We concur to the following:**

SCHRA is now conducting quarterly reviews comparing client ledgers for the quarter with the copies of the Purchase Orders. On March 31 a review was conducted of 5 percent of the client files, and 100% of the Purchase Orders were accounted for.

*2 E. The agency does not provide budgets and statements for CRPP clients...*

**Agency Response to finding 2 E. We concur to the following:**

Going forward, SCHRA will provide budgets and statements according to Social Security requirements.

*2 F. The agency does not regularly review individual client and expenditure accounts to ensure there is no unauthorized activity...*

**Agency Response to Finding 2 F. We Concur to the following:**

We concur the agency was not documenting the reviews that were being conducted of the client expenditures and revenues. The reviews are now being documented.

*2 H. The agency improperly withheld funds from a client in an effort to make the client provide receipts for personal needs spending and incorrectly told the client that SSA only allowed \$30 for personal needs per month without receipts...*

**Agency Response to Finding 2 H. We Concur to the following:**

SCHRA has reached out to Social Security and received new guidance in regard to the instructions they had been provided by the monitor several years ago. Receipts are still to be encouraged but not required for personal spending checks. SCHRA will be requesting a monitoring review by Social Security in the coming months to vet out any additional procedural requirements and best practices.

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**FINDING 3                    THE LACK OF SEGREGATION OF DUTIES IN THE FISCAL DEPARTMENT AND CONTROLS OVER THE AGENCY'S COMPUTERIZED ACCOUNTING SYSTEMS COULD LEAD TO FRAUD**

Duties are not segregated adequately in SCHRA's Fiscal Department. The assistant director of fiscal operations oversees the general ledger, does all of the bookkeeping for the Head Start and Early Head Start programs, oversees agency cost pools, and completes monthly close-outs and year-end entries for all accounting records. Also, she completes all necessary financial reports required for audits of the agency. In addition to these responsibilities, she assigns permissions and access to the agency's accounting system, does the system updates, and sets security levels for users. She can also create purchase orders in the system, access checks in the Accounting Department, and access the password-protected file of electronic signatures used on checks. When the contractor was paid for his work on Head Start, she received the approved invoice, completed the voucher for payment, initiated the payment process, and received the checks for payment.

In addition, the assistant director of fiscal operations maintains the accounting records in two separate computer databases, one for SCHRA's general ledger accounts and the other for the Community Representative Payee Program. In addition to these two computer databases, the assistant director keeps manual ledger books. One person should not have complete control of the agency's accounting records. Periodic reviews by agency officials and other individuals help detect errors and enhance the integrity of financial information. Maintaining a second set of accounting records creates opportunities for fraud and is an inefficient practice that could, at minimum, result in errors in the financial statements.



The agency's lack of appropriate segregation of duties and computer controls is a deficiency that increases the risk of unauthorized transactions and fraud.

### **RECOMMENDATION**

The agency should ensure appropriate segregation of duties in the Fiscal Department and controls over user access to reduce the risk of fraud. SCHRA should maintain one set of official accounting records.

### **MANAGEMENT'S RESPONSE — JAMES COY ANDERSON, FORMER EXECUTIVE DIRECTOR**

SCHRA concurs with the recommendation; however, we would like to add that an independent auditor audits the agency annually and completes a segregation of duties questionnaire. There have been no suggestions for improvement in this regard in the audit reports.

SCHRA recognizes too much responsibility for the overall monitoring, financial reporting, and year-end transactions have been delegated by the director of fiscal operations to subordinates. These activities are designated by the director of fiscal operations position to ensure no fraudulent activity is taking place and to correct errors in processing by staff should they occur.

The software allows "View" only privileges to allow for access without the possibility for "changing" data to some users. As always, there have to be individuals authorized as administrators for the system, and best practice is to have two to allow for continuity of service should one be absent from work. The system tracks by USER ID all transactions made in the system.

#### ***Corrective Action:***

SCHRA will ensure the director of fiscal operations will take back the duties assigned to ensure operations are monitored and to perform all operations for audit reporting and the closing entry processing. This will ensure the segregation from the subordinate's duties and those of the oversight and monitoring of the entire accounting operations.

Two qualified users will be identified and designated to act as administrators over the CRPP database and the accounting system database who do not perform accounting or procurement transactions. Additionally a written authorization outlining the users' access needs will be documented for all users.

Upon documentation of changes made to these above segregations, a report will be submitted to auditors, the Board, and the Comptroller.

As of October 2015, SCHRA no longer maintains a manual ledger.

## **MANAGEMENT'S RESPONSE — PAUL ROSSON, EXECUTIVE DIRECTOR, AND THE SCHRA BOARD AUDIT COMMITTEE**

This finding was addressed by the former Executive Director. Safeguards and a review of internal controls will be addressed by the new Executive Director and the new Director of Fiscal Operations when that position is hired. According to conversations with the Comptroller investigative team, the main issue was not the lack of internal controls. The issue was the circumventing of the agency's internal controls. This is a chief reason why the Director of Fiscal Operations and Assistant Director of Fiscal Operations were terminated.

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### **FINDING 4                    THE EXECUTIVE DIRECTOR'S VEHICLE USE VIOLATED AGENCY POLICY**

Prior to January 29, 2015, SCHRA's Vehicle Usage Policy allowed the assignment of agency vehicles to employees for extended periods of time. For individuals who used their vehicles to commute to and from work, the agency used the IRS Commuting Valuation Rule and added a taxable benefit of \$1.50 (each direction) to the employee's taxable income. Under the IRS rules and agency policy, using this rule hinges on several qualifiers including the employee should not use the vehicle for anything other than very minimal personal use, such as driving to lunch.

During our investigation, the executive director advised us that his car was for use 24/7, and he would take his car from Fayetteville to Wayne County for weekends and holidays. The round trip mileage from the agency in Fayetteville to Waynesboro is 156 miles. The agency's Fuelman card was used for gas. The executive director admitted that he had been driving his agency car for personal use in this fashion since he became the director in 2006.

As of January 29, 2015, the agency's Vehicle Usage Policy changed to require assigned vehicles to be kept at the employee's designated work-site and prohibits using an agency vehicle for personal use. The policy does not provide an exception for the executive director's vehicle usage. During the course of our investigation, the executive director discontinued using an agency vehicle for personal use.

### **RECOMMENDATION**

All SCHRA employees should follow the agency's Vehicle Usage Policy.

## **MANAGEMENT'S RESPONSE — JAMES COY ANDERSON, FORMER EXECUTIVE DIRECTOR**

SCHRA concurs. However, at the time of the executive director's hiring, the Board provided him an agency vehicle for personal use as part of his compensation package, which included travel to his home and back. The executive director did drive the vehicle to and from his home on the weekends but parked the vehicle in the carport on arrival and left it parked there until his return to his official work-site, the Central Office, the next work week. It was not used for personal use over the weekends. The

agency car has not been used for personal use or to travel to and from the executive director's residence since December 29, 2014, when the Federal 45 CFR Part 74 (Uniform Administrative Requirements) became effective stating that government vehicles would be parked at the official work-site of any employee assigned a work car.

***Corrective Action:***

As stated above, said vehicle is used only for agency business and travel and is parked in the fenced parking area in the rear of the Central Office facility to comply with the Federal 45 CFR Part 74 (Uniform Administrative Requirements).

**INVESTIGATOR'S COMMENTS TO MR. ANDERSON'S MANAGEMENT RESPONSES**

We noted multiple fuel fill-ups on Thursdays, Fridays, Saturdays, and Sundays.

**MANAGEMENT'S RESPONSE — PAUL ROSSON, EXECUTIVE DIRECTOR, AND THE SCHRA BOARD AUDIT COMMITTEE**

This finding was addressed by the former executive director.

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**FINDING 5**      **THE CIRCUMVENTION OF CONTROLS BY THE EXECUTIVE DIRECTOR AND THE DIRECTOR OF FISCAL OPERATIONS LED TO VIOLATIONS OF SEVERAL AGENCY POLICIES**

During our investigation, we found issues where agency leadership circumvented multiple policies and practices that apply to all employees and the agency.

*A. Violation of Direct Deposit Policy*

According to the *Personnel Policies and Procedures Manual*, Section 303.1, employees will be paid via direct deposit to the bank of their choice. When the Head Start contract manager's subcontractor was hired as an agency employee in March 2012, he was granted an exception to this policy via memo from the director of fiscal operations and the executive director. The memo was addressed to Payroll and Human Resources; however, the director of human resources stated in a separate memo that she was not aware of this employee having an exception to the direct deposit policy.

*B. Violation of Employee Action Form Policy and Practice*

SCHRA Account Manual Policy requires all employees to have an Employee Action Form for each change in status, pay, etc. The same employee noted in section A. above was rehired by the executive director and the director of fiscal operations to start work during the week of May 20, 2013. His status was changed in the payroll

system without the necessary Employee Action Form even though his status remained “Terminated” in his personnel file. Memos in the personnel file dated July 1 and July 8, 2013, from the director of human resources indicate she was not aware of these activities.

*C. Violation of SCHRA’s Procurement Regulations (See Finding 1.G.)*

The executive director and the director of fiscal operations hired the construction manager on Head Start projects without bidding the position even though the services exceeded the threshold of \$5,000. SCHRA Procurement Regulations, Section 4(d), requires bids for the purchase of materials and services costing at least \$5,000, and further states all procurements must be conducted in a manner to provide maximum open and free competition. The construction manager was paid \$96,000 over three years.

*D. Violation of Sound Business Practices (See Finding 1.D.)*

A contractor for SCHRA was treated as an authorized user on the agency’s charge accounts at Home Depot and Lowes. As part of a memorandum of understanding between the contractor and the agency, the contractor was responsible for ordering and scheduling materials as needed for two Head Start projects. Sound business practices prohibit anyone other than agency employees from being authorized users on accounts. Furthermore, as an authorized user on the charge account, the contractor avoided paying sales tax. Section 67-6-209(b), *Tennessee Code Annotated*, requires contractors and subcontractors to pay sales tax on all tangible personal property that has been furnished to them.

*E. Violation of the Conflict of Interest Policy (See Finding 1.B.)*

The executive director and the director of fiscal operations hired a contractor without disclosing a conflict of interest with the agency’s assistant director of fiscal operations. The agency *Personnel Policies and Procedures Manual* requires any conflict or potential conflict of interest to be disclosed in writing. The policy states,

The agency shall not obligate or expend any funds for the purchase or rental of goods, space or services if an employee or member of an employee’s immediate family has a substantial interest in the purchase or rental. The immediate family is defined as husband, wife, father, mother, mother-in-law, father-in-law, brother, brother-in-law, sister, sister-in-law, son, son-in-law, daughter, daughter-in-law, grandparents, uncles or aunts....

Furthermore, the executive director and the director of fiscal operations neglected to take action when the employee failed to appropriately disclose the conflict relationship on the annual form. The executive director also failed to notify the Board of the conflict of interest.

## **RECOMMENDATION**

The executive director and the director of fiscal operations should not circumvent agency policies and procedures without due process. The director of human resources should be notified of any exceptions granted to Personnel Policies, and her written approval should be obtained prior to exceptions being granted. No changes should be made in the payroll system without the appropriate Employee Action Form. Authorized users for agency charge accounts should be limited to agency employees. Contractors should pay sales tax on all supplies and materials used in the agency's Head Start projects, and contractors should not use the SCHRA's tax-exempt status to make such purchases. Agency leadership should require employees with known conflicts of interest to disclose these on their annual forms. Conflict of interest forms should be reviewed by the Board annually.

## **MANAGEMENT'S RESPONSE — JAMES COY ANDERSON, FORMER EXECUTIVE DIRECTOR**

### **A. Violation of Direct Deposit Policy**

SCHRA concurs.

#### ***Corrective Action:***

SCHRA Personnel Policies and Procedures will not be circumvented without due process. Due process will include written notification to the human resources manager to obtain written approval prior to any action.

### **B. Violation of Employee Action Form Policy and Practice**

SCHRA concurs.

#### ***Corrective Action:***

Hiring procedures will not be circumvented without due process to include, written notification to the human resources manager to obtain written approval prior to action.

### **C. Violation of SCHRA's Procurement Regulations**

SCHRA does not concur.

The on-staff contractor's unavoidable leave caused delays in work and scheduling completion deadlines, which in turn jeopardized funding for the two projects. Funding for the two Head Start projects was approximately \$500,000. Because both projects had incurred expenses and were in jeopardy of failing to meet completion deadlines in agreements the agency had made with the grantor, the executive director and the director of fiscal operations deemed the need for a project manager to be an emergency and issued the memorandum of understanding without bidding for professional services.

The memorandum of understanding was issued to a contractor with sufficient licensing and qualifications to provide *professional services* as a project manager to oversee the completion the Head Start Manchester and Columbia projects. SCHRA Procurement Procedures state the following in its bidding requirements: “*All purchases for materials and services, excluding professional or technical services, shall follow the bid requirements.*”

***Corrective Action:***

The executive director and the director of fiscal operations will document and provide a detailed description of the reason for not bidding professional services where crisis management decisions are made. This documentation will also be shared with SCHRA’s Board prior to entering a memorandum of understanding to ensure a comprehensive decision is made to address an emergency need of the agency.

The executive director will ensure internal monitoring of ongoing projects to determine the timely progress toward completion. This monitoring will include the completion of the Procurement Oversight Form implemented in the fall of 2015. This form was developed to comply with the Federal 45 CFR Part 74 (Universal Administrative Requirements) regulations for documented ongoing oversight over projects and will support this corrective action plan as well. The Procurement Oversight Form will be included in project files as well as communicated with directors, the executive director, director of fiscal operations, and others who may be in a need-to-know position with regard to individual procurement projects.

**D. Violation of Sound Business Practices**

SCHRA concurs that the project manager was on both credit card accounts. The contractor was added to pick up items for the work-site and reduce delays for employees who were working at the site. All purchases made for the projects had the proper requisitions submitted to the Purchasing Department, and agency purchase orders were issued to the vendors (Home Depot and Lowes) for said purchases.

Accounts were reconciled by the Purchasing Office providing verification no unauthorized purchases were made while the project manager was on the account.

***Corrective Action:***

Credit card accounts have been reviewed to identify and remove any user who was a former employee or non-employee. In order to add a user to any account, the user must be an employee and be in a position where purchasing on the account is necessary to complete their duties as an employee. The executive director, the director of fiscal operations, program director, and purchasing officer approve the addition of a user to any charge account. A list of users is maintained by the purchasing officer on all accounts, and upon termination of

employment, removal of the employee from the account is processed immediately.

Additionally, when users on a charge account pick up items, an additional employee must verify receipt of goods upon delivery to ensure items purchased are received at work-site/location.

#### **E. Violation of Conflict of Interest**

SCHRA concurs that the appearance of a conflict of interest was not disclosed in writing.

The assistant director of fiscal operations did not disclose the conflict of interest in writing, which is a failure to follow SCHRA's Conflict of Interest Policy. The executive director and the director of fiscal operations were aware of the conflict between the project manager and the contractor when entering the agreement; however, they failed to inform the agency Board.

##### ***Corrective Action:***

The executive director did not require the conflict to be documented because he believed there was a form on file, and fiscal policies and procedures were in place to mitigate the possibility of risks. Now, these will be verified and copied to report conflicts, which may affect agreements entered into by the agency with organizations.

SCHRA revised the Conflict of Interest Policy to give examples of possible conflicts of interest to help employees understand the definition. Annual training on the Conflict of Interest Policy is provided to all employees along with using the Conflict of Interest Certification Form to report any known problems the employees are aware of and will provide continuing opportunities for employees to report any conflicts. Any reports of conflicts on the certification form are shared with the executive director and the Board chairperson in compliance with the additional revision of the policy to include dual reporting to both parties.

SCHRA has added to the annual training on the Conflict of Interest Policy and the necessity to report any potential or real conflict of interest upon becoming aware of the conflict. This informs the employee of the need to report upon knowledge and not to wait until annual training.

#### **INVESTIGATOR'S COMMENTS TO MR. ANDERSON'S MANAGEMENT RESPONSES FOR FINDING 5.C.**

C. See our comments on finding 1.G.

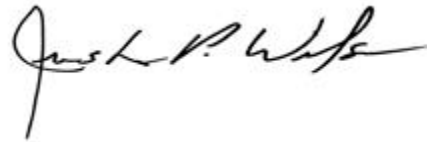
**MANAGEMENT'S RESPONSE — PAUL ROSSON, EXECUTIVE DIRECTOR, AND  
THE SCHRA BOARD AUDIT COMMITTEE**

According to conversations with the Comptroller investigative team, the main issue was not the lack of internal controls, personnel policies, procurement procedures, conflict of interest policies, or an understanding of sound business practices. The issue was the circumventing of the agency's policies and fiscal controls. This again is a chief reason why the director of fiscal operations and assistant director of fiscal operations were terminated from SCHRA. Additionally, SCHRA also terminated the current Weatherization contract with the contractor.

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If you have any questions concerning the above, please contact this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Justin P. Wilson  
Comptroller of the Treasury

JPW/kbh